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[COMMITTEE PRINT]

STATEMENT OF PURPOSE AND JUSTIFICATION AND
SECTION-BY-SECTION ANALYSIS OF THE LEGIS-
LATION REQUESTED BY THE UNITED STATES
CIVIL SERVICE COMMISSION TO TERMINATE
COST-OF-LIVING ALLOWANCES FOR STATUTORY-
SALARIED FEDERAL CIVILIAN EMPLOYEES IN
NONFOREIGN AREAS

—
COMMITTEE ON POST OFFICE AND
CIVIL SERVICE
HOUSE OF REPRESENTATIVES



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FOREWORD

This print contains the letter of transmittal, statement of purpose and justification, and sectional analysis of legislation recommended by the Civil Service Commission to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas.

The print also contains a further letter from the Chairman of the Civil Service Commission, dated January 23, 1964, with respect to action taken administratively by the Commission to reduce such allowances and urging action be taken on the original proposal.

TOM MURRAY, *Chairman.*

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LETTER OF TRANSMITTAL

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., May 14, 1963.

Hon. JOHN W. McCORMACK,
Speaker of the House of Representatives.

DEAR MR. SPEAKER: We are submitting with this letter for the consideration of the Congress proposed legislation to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas. There are enclosed a draft bill, section analysis of the draft bill, and a statement of purpose and justification.

This proposed legislation is intended to place Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands on the same footing as employees in other parts of the United States with respect to compensation under statutory salary systems.

The Federal Salary Reform Act of 1962 established comparability with private enterprise salary levels as the standard for determining Federal salaries for employees paid under the Classification Act, for employees in the postal field service, and for employees paid under other statutory systems. That law also provided authority to establish rates higher than those appearing in the statutory schedules when the Government is significantly handicapped in recruiting and retaining well-qualified persons due to substantially higher salary rates in private enterprise.

In Alaska, Hawaii, Puerto Rico, and the Virgin Islands statutory-salaried Federal employees are receiving additional compensation on the basis of living costs under authority of section 207 of the Independent Offices Appropriation Act 1949, as amended. This method of compensation is inconsistent with the newly established principles governing Federal salary determination and is unnecessary since, where warranted by the level of private enterprise salaries, increased minimum rates and rate ranges can now be authorized under the Federal Salary Reform Act. The continuation of the cost-of-living allowances in nonforeign areas is illogical. It is unfair to employees in other parts of the country where living costs may be higher than in Washington, D.C., but where no authority exists to pay additional compensation for that reason.

We urge enactment of this proposed legislation in order that the pay principles of the Federal Salary Reform Act may be properly applied in the areas where the allowances are now paid.

Surveys are currently being conducted to determine levels of private enterprise salaries in Alaska, Hawaii, and Puerto Rico. To the extent warranted by the findings, increased rates will be authorized coincident with the effective date of this legislation.

The bill includes a provision to permit the phasing out of the allowance over a period of not to exceed 6 years. We believe that even where increased base rates are not warranted, the allowances can be

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LETTER OF TRANSMITTAL

terminated through a series of small reductions so that, with very few exceptions, no employee will receive less gross compensation than he is now getting, provided that statutory adjustments are made annually to reflect Bureau of Labor Statistics findings on national averages of private enterprise salaries.

The Bureau of the Budget advises that enactment of the recommended bill will be consistent with the administration's objectives.

A similar letter is being sent to the President of the Senate.

By direction of the Commission:

Sincerely yours,

(Signed) JOHN W. MACY, Jr.,
Chairman.

Enclosures (3).

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., January 23, 1964.

Hon. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives,
Room 213, Cannon House Office Building.

DEAR MR. CHAIRMAN: The Commission, by letters of May 14, 1963, to the President of the Senate and the Speaker of the House, recommended legislation which would terminate the cost-of-living allowances currently paid to statutory-salaried civilian employees in nonforeign areas. The bill has been introduced in the House of Representatives as H.R. 7410.

Current rates of the allowances which would be affected by this legislation are as follows: Alaska, 25 percent; Hawaii, 15 percent; Puerto Rico, 12.5 percent; and the Virgin Islands, 15 percent. Under action recently taken by the Commission, the allowance rates for Puerto Rico and the Virgin Islands will be reduced early in April. The new rate in each of these areas will be 5 percent. We estimate that the per annum cost of the allowances after the April reduction will be approximately as follows: For Alaska, \$11.4 million; for Hawaii, \$10.4 million; for Puerto Rico, \$1.3 million; and for the Virgin Islands, about \$50,000.

The proposed legislation is intended to put the compensation of employees in the areas where these allowances are now paid on the same footing as that of employees on the mainland in accordance with the policy established by the Federal Salary Reform Act of 1962 that Federal statutory salaries shall be comparable with private enterprise salary rates for the same levels of work. It contemplates the authorization of higher base salary rates under section 504 of the Federal Salary Reform Act in those areas where substantially higher private enterprise salary levels would significantly handicap the Government's recruitment or retention of well-qualified persons. In the letters proposing the legislation, we said that salary surveys were currently being conducted in Alaska, Hawaii, and Puerto Rico to provide information upon which such rates could be authorized to the extent warranted.

I am enclosing with this letter the survey findings which have been furnished to us by the Department of Labor. The results are stated in terms of average private-enterprise salaries for positions equivalent

to Classification Act grade levels. The results are presented in this manner because, for some occupations, a presentation of averages on an occupational basis would jeopardize the confidential character of the data obtained from individual companies. I am also enclosing for your convenience a table which compares these survey findings with mainland private enterprise salaries. The mainland averages are based on the 1963 national survey of professional, administrative, technical, and clerical pay made by the Bureau of Labor Statistics at approximately the same time as the surveys in Alaska, Hawaii, and Puerto Rico.

You will see that the survey findings show that private enterprise salary rates in Alaska are rather substantially above mainland private enterprise averages. On the other hand, in both Hawaii and Puerto Rico the private enterprise salaries are shown to be generally less than those on the mainland. These findings emphasize the inappropriateness of the present cost-of-living allowances in Hawaii and Puerto Rico from the point of view of sound salary administration and comparability with private enterprise rates.

In Alaska, the findings would warrant the authorization of base salary rates under section 504 substantially higher than the statutory salary rates. These new base salary rates would replace the existing allowance. Similar increased salary rates on an across-the-board basis, however, would not be warranted for the other areas.

This does not rule out the possibility, of course, that higher rates might be warranted in either Hawaii or Puerto Rico for certain individual occupations in certain grade levels if experience shows the need and the private enterprise salary rates should justify them.

We continue to urge your favorable consideration of the bill which we believe appropriately balances the economical use of funds and the equitable treatment of employees.

By direction of the Commission:

Sincerely yours,

JOHN W. MACY, Jr.,
Chairman.

U.S. DEPARTMENT OF LABOR—BUREAU OF LABOR STATISTICS

Simple averages for equivalent Classification Act grades¹ of average annual salaries for selected professional, administrative, technical, and clerical occupations surveyed in private industry² by the Bureau of Labor Statistics in urban areas of Hawaii, Puerto Rico, and Alaska,³ May-June 1963

Classification Act grade	Honolulu, Hawaii, May 1963	Puerto Rico		Anchorage, Fairbanks, Juneau, and Ketchikan, Alaska, June 1963
		Mayaguez, Ponce, and San Juan, May 1963	San Juan, May 1963	
GS-1	\$2,976	\$2,550	\$2,580	\$4,392
GS-2	3,504	2,604	2,712	4,728
GS-3	4,370	3,234	3,245	5,565
GS-4	5,142	3,355	3,353	6,852
GS-5	5,920	3,706	3,768	8,190
GS-6	6,444	4,188	4,188	(*)
GS-7	6,538	4,889	4,882	8,844
GS-9	7,750	5,630	5,657	11,172
GS-11	9,516	8,196	8,122	11,436
GS-12	11,246	9,540	8,808	14,967
GS-13	14,652	10,985	10,913	(*)
GS-14	(*)	13,028	13,596	(*)

¹ As requested by the Civil Service Commission, the average for each grade was obtained by computing a simple average of the average (mean) annual salaries for the occupation/work levels studied that were equivalent to that grade (as determined by the Commission). Although the same occupations and levels were surveyed in all areas, job matches were not found for each category in all areas. Salaries relate to the standard salaries that were paid for the employees' normal work schedules, excluding overtime hours.

² Establishments employing 50 or more workers in the following industry divisions: Manufacturing; contract construction; transportation (excluding taxicabs); communication, and other public utilities; wholesale trade; retail trade; finance, insurance, and real estate; and most of the service industries.

³ Standard metropolitan statistical areas of Hawaii and Puerto Rico; and cities and contiguous areas of Anchorage, Fairbanks, Juneau, and Ketchikan, plus a few relatively large establishments located in other communities of Alaska.

⁴ Insufficient data to warrant presentation of an average.

⁵ Average for accountants IV only. Insufficient observations to permit calculation of a grade average inclusive of other occupations.

⁶ Average for engineers VI only. Insufficient observations to permit calculation of a grade average inclusive of other occupations.

Comparison of private enterprise salary averages in Hawaii, Alaska, and Puerto Rico with those on the mainland (also shown are the 4th rates of the Classification Act grades)

Grade	4th rate of grade ¹	Mainland average ²	Alaska		Hawaii		Puerto Rico	
			Survey average	Percent of main- land average	Survey average	Percent of main- land average	Survey average	Percent of main- land average
GS-1	\$3,620	\$3,166	\$4,392	139	\$2,976	94	\$2,550	81
GS-2	3,935	3,725	4,728	127	3,504	94	2,694	72
GS-3	4,195	4,384	5,565	127	4,370	100	3,234	74
GS-4	4,635	5,347	6,852	128	5,142	96	3,355	63
GS-5	5,170	6,330	8,190	120	5,920	94	3,706	59
GS-6	5,760				6,444		4,188	
GS-7	6,380	7,209	8,844	123	6,538	91	4,889	68
GS-8	7,020							
GS-9	7,720	8,187	11,172	136	7,760	95	5,630	69
GS-10	8,455							
GS-11	9,250	10,009	11,436	114	9,516	95	8,196	82
GS-12	10,970	11,991	14,967	125	11,246	94	9,540	80
GS-13	12,880	14,167			14,652	103	10,985	78
GS-14	14,965	16,574					13,628	82
GS-15	17,210	21,180						

¹ Rates effective on the 1st day of the 1st pay period beginning on or after Jan. 1, 1964.

² Bureau of Labor Statistics national survey of professional, administrative, technical, and clerical pay, 1963.

STATEMENT OF PURPOSE AND JUSTIFICATION

To accompany a proposed bill to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, and for other purposes.

PURPOSE

It is the general purpose of this bill to place Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands on the same footing as Federal employees in other parts of the United States with respect to their compensation under statutory salary systems.

To this end the proposed bill would (1) repeal the authority for payment of cost-of-living allowances to Federal statutory-salaried employees in nonforeign areas contained in section 207 of the Independent Offices Appropriation Act, 1949, as amended, (2) provide for phasing out in an equitable manner the allowance being received by present employees, (3) amend the Federal Salary Reform Act of 1962 to permit the authorization of higher rates when warranted in Alaska under section 504 of that act, and (4) provide for regulations to govern the adjustment of an employee's pay when he is promoted, transferred, or reassigned to or from a position for which increased rates are authorized under section 504.

JUSTIFICATION

Background

Cost-of-living allowances authorized under section 207 of the Independent Offices Appropriation Act, 1949, are currently paid in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. They are paid to employees whose rates of pay are fixed by statute. The largest groups are those whose pay is fixed by the Classification Act of 1949, as amended, and by part III of title 39, United States Code, in the postal field service. The allowances are paid to all employees in statutory-salaried positions whether they are recruited locally or in the continental United States. (The post differentials which are also authorized under section 207 for certain employees at "hardship posts" are not affected by this proposal.)

Statutory authority for cost-of-living allowances was provided in 1948 to regularize the payment of additional compensation to employees in U.S. territories. Prior to that time additional compensation in the form of differentials or higher grades was paid for employment in territorial areas. Different agencies authorized various amounts of additional pay, some authorized none. In some instances the additional pay applied to all employees, while in others, it applied only to employees recruited in the continental United States. There was no systematic basis or uniformity in determining and applying these differentials. Section 207 tied the additional compensation to a comparison of living costs. At that time additional compensation was considered necessary in order to staff Federal activities in the areas concerned.

Need for change

Since 1948, there have been significant changes which make inappropriate the continuation of additional compensation based on living costs. There have been substantial changes in the economics of the areas concerned, especially in those of Puerto Rico and Hawaii.

There has been enacted legislation which provides new principles for determining Federal salaries and new authority for adjusting salary rates and ranges where required to meet private industry pay levels.

In enacting the Federal Salary Reform Act of 1962, the Congress established two major principles upon which the fixing of Federal salaries is to be based. These principles are that—

- (a) There shall be equal pay for substantially equal work, and pay distinctions shall be maintained in keeping with work and performance distinctions; and
- (b) Federal salary rates shall be comparable with private enterprise salary rates for the same levels of work.

Adoption of the comparability principle is a recognition of the fact that in order to recruit and retain well-qualified personnel the Government must be able to pay salaries reasonably related to those paid by private employers for work of a similar level of difficulty. The Federal Government competes with industry for personnel to staff its offices and installations. By basing Federal salaries on a comparison with salary levels in private enterprise, other factors such as living costs are indirectly taken into account to the extent that they affect industry salaries.

In addition to establishing these principles, the Federal Salary Reform Act introduces an element of greater flexibility in the setting of Federal salaries. Section 504 of the act provides authority to establish higher rates of pay for statutory-salaried Federal employees when private enterprise salaries are so substantially above the salary rates appearing in the compensation schedules as to significantly handicap the Government in recruiting and retaining well-qualified personnel. This authority has been used sparingly on an occupational basis in a number of localities and for some occupations on a nationwide basis. It can be used where warranted in a geographic area to increase the pay rates of all employees paid under statutory-salaried systems, of employees at certain grades or levels, or of employees in certain occupations.

In the light of the changed economic conditions, the new Federal salary principles and the new authority to adjust salary rates where called for by private enterprise salary levels, it is inappropriate to continue paying additional compensation in some States and non-foreign areas on the basis of living costs.

Living costs vary from city to city within the continental United States. According to the study made by the Bureau of Labor Statistics of city workers' family budgets, some major cities in the continental United States have living costs which are more than 20 percent above those with the lowest living costs. Chicago and Seattle have living costs which are some 7 percent above those in Washington, D.C. It is neither logical nor fair to continue to reflect the difference between living costs in Washington, D.C., and those in Anchorage, Honolulu, and San Juan in the gross compensation of employees in the latter cities when the differences in living costs between Washington and Seattle and between Washington and Chicago are not reflected in the compensation of employees in those cities.

At the request of the Commission and the Bureau of the Budget, surveys of salaries in private enterprise are being conducted this year by the Bureau of Labor Statistics in Alaska, Hawaii, and Puerto Rico to obtain information on the basis of which higher rates may be authorized in those areas to the extent warranted under section 504

of the Salary Reform Act. These surveys are the same kind as those which are conducted annually by the Bureau of Labor Statistics in the contiguous 48 States to provide information for general statutory salary adjustments.

By eliminating the cost-of-living allowances and providing higher rates where necessary by means of adjusting base pay under section 504 of the Federal Salary Reform Act, Federal statutory salaries in Alaska, Hawaii, Puerto Rico, and the Virgin Islands can be put on the same footing with statutory salaries in the District of Columbia and the contiguous 48 States.

To accomplish this objective it is necessary to repeal the language now appearing in section 207 of the Independent Offices Appropriation Act, 1949, as amended, which authorizes additional compensation in nonforeign areas on the basis of living costs.

Progressive reduction of allowance

In order to avoid or mitigate the hardship which might otherwise result from termination of the cost-of-living allowances, it is proposed to achieve the change by reducing the allowance received by employees on the rolls on the effective date progressively so that the loss experienced may be made up, either completely or to a large extent, by general salary increases. The bill allows a period of up to 6 years to accomplish final termination of allowances. Employees appointed after the effective date would not receive the allowance. The timing and amount of reductions is left to be prescribed by regulation in order that they may be accommodated to the different allowance rates in the several areas and the probable different extent of salary adjustments under section 504.

Under this authority, assuming that increased salary schedules are enacted annually on the basis of Bureau of Labor Statistics findings with regard to private enterprise salaries, there should be few if any actual decreases in total compensation. For a number of years, not to exceed six, the amount of the allowance which present employees received immediately prior to the effective date of the proposed act would be continued as a separate and distinct payment but at a gradually reduced rate. Although the amount of the allowance is lower each year, the base pay rate, as a result of statutory increases, is higher. The one change tends to offset the other. The gross compensation would not be frozen. By means of within-grade increases, promotions, and larger-than-average schedule increases, some employees might receive higher gross compensation in this period than they are receiving at its beginning.

Replacement by section 504 rates

In Alaska where industry salaries are relatively high, and perhaps in some other areas at some grade levels or for some occupations, the allowance may be eliminated immediately if salary surveys presently underway justify increased rates under authority of section 504 of the Salary Reform Act which are as high as the present base rate plus the allowance. If a section 504 rate is authorized, but it is not as high as the sum of an employee's base pay and allowance immediately before the effective date, the balance of the allowance (i.e., the difference between the new base pay and the sum of the former base pay and allowance) will be progressively reduced in the same manner as

the allowance of an employee who does not receive an increase under section 504.

Tax-free character of allowance

The cost-of-living allowance is exempt from the Federal income tax. It is recognized that to the extent that the dollar amount of the allowance is reduced over the phasing-out period employees will lose the advantage of its tax-free character. The effect of this change will vary from employee to employee and will be felt more by the employees at higher salary levels than at lower levels. Because the allowance is currently paid on the basis of total base pay, this tax-free characteristic makes the payments very generous. In light of this and because of the varying impact on different employees, it is not possible to assure that there will be no loss to employees through this change.

Amendment to Federal Salary Reform Act

Under the present section 504 of the Federal Salary Reform Act no minimum rate may be fixed at a rate higher than the seventh rate of the statutory range. The proposed bill, as pointed out in the statement of the purpose, would exempt Alaska from this limitation. It is anticipated that private enterprise rates may well be so high in Alaska that in order to provide comparable Federal salary rates, minimums higher than the seventh rate may be required at some or all levels. For similar reasons the draft bill would also exempt Alaska from the \$20,000 ceiling on salary rates now appearing in the Salary Reform Act.

The proposed bill contains a provision clarifying the authority of the President to regulate regarding the fixing of pay of employees who are reassigned, promoted, or demoted from or to positions for which increased rates under section 504 have been authorized.

The higher rates of pay which may be authorized under section 504 on a geographic basis will, like the cost-of-living allowance, be payable only during the time that employees are stationed in the area concerned. The rate should not be paid to the employee when he leaves that area. For example, if the present statutory minimum rate for GS-11, \$8,045, should be increased to \$9,900 for Alaska, it would not be appropriate for an employee receiving \$9,900 in that grade in Alaska to be reassigned to a GS-11 position in Washington, D.C., and continue to receive the Alaska rate. Instead his rate in Washington, D.C., should be set at \$8,045 which would be the corresponding rate for the new location. On promotion to a position outside the area for which the high rates have been authorized, the employee would similarly receive a rate appropriate to the new area.

The bill provides general authority to regulate with respect to the fixing of an employee's pay upon change to or from a position for which increased rates are authorized. This authority is needed so that regulations can be issued which will prevent an employee who is paid at an increased rate authorized for a particular area, Alaska, for example, from being paid at that increased rate when he is transferred or transferred and promoted to an area to which the increased rate does not apply. The authority is not limited to cases involving movement from one geographic area to another because, except where equitable treatment calls for a different rule, rules consistent with those for geographic changes will be needed to govern changes from one occupation or grade level to another.

SECTION ANALYSIS

To accompany a proposed bill to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, and for other purposes.

Section 1 of the draft bill amends section 207 of the Independent Offices Appropriation Act, 1949, as amended, so as to eliminate the authority for the cost-of-living allowances which are now paid to statutory-salaried employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. It does not affect the authority to pay additional compensation as a recruitment incentive based upon conditions of environment, the authority under which post differentials for certain U.S. territories are currently established.

Section 2 of the draft bill provides necessary authority to continue the cost-of-living allowances received by employees immediately prior to the effective date of the act but requires that those allowances shall be terminated within a period of not to exceed 6 years and shall be reduced within that period at such times, at such locations, and by such amounts or methods as may be prescribed by regulations issued either by the President or by such agency or agencies as he may designate.

Section 3 of the draft bill amends subsection (a) of section 504 of the Federal Salary Reform Act of 1962 so as to except Alaska from the seventh rate limitation on the authorization of increased minimum rates. Under the present provisions of the subsection, no minimum salary rate may be established which exceeds the seventh salary rate prescribed by law for the grade or level.

Section 3 also amends section 504 of the Federal Salary Reform Act by adding a new subsection (d). This subsection authorizes the President or such agency or agencies as he may designate to prescribe by regulation, notwithstanding other provisions of law, the basic compensation to be received by an employee who is transferred, reassigned, demoted, or promoted to or from a position to which increased rates authorized under that section apply. This new subsection will provide authority for regulations governing the fixing of an employee's pay when he moves to or from an area for which increased rates have been authorized or moves to or from an occupation or grade level for which increased rates have been authorized.

Section 4 amends section 1009 of the Federal Salary Reform Act so as to except Alaska from the \$20,000 ceiling which is generally applicable to increases made pursuant to that act. This will permit authorization of rates higher than \$20,000 under section 504 in Alaska to the extent warranted.

Section 5 provides that the act shall become effective on the first day of the first pay period beginning on or after January 1, 1964.

